

Message Text

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43

ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 NEA-10 ISO-00 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PA-01 PRS-01 /115 W
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R 161115Z JAN 76

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 3435

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMEMBASSY BELGRADE

AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY CAIRO

AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY KATHMANDU

AMEMBASSY KINGSTON

AMEMBASSY KINSHASA

AMEMBASSY LIMA

AMEMBASSY LAAKA

ANRMBASSY MEXICO 088

AMEMBASSY YAOUNDE

LIMITED OFFICIAL USE SECTION 1 OF 2 NEW DELHI 0831

EO 11652: NA

TAGS: EFIN, ENRG, ECON, IN

SUBJ: CIEC: IMPACT OF HIGHER OIL PRICES ON ECONOMIC DEVEL-
OPMENT IN INDIA

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REF: STATE 006381

SUMMARY: HIGHER OIL PRICES HAVE HAD A SEVERE IMPACT ON INDIA'S BALANCE OF PAYMENTS SITUATION. THE SHARPLY HIGHER TRADE DEFICIT, HOWEVER, HAS BEEN SUCCESSFULLY FINANCED (AT LEAST IN THE SHORTRUN) BY HIGHER LEVELS OF EXTERNAL ASSISTANCE AND BORROWINGS UNDER THE VARIOUS IMF FACILITIES. AT THE SAME TIME THE ENERGY CRISIS HAS HAD RELATIVELY LITTLE DIRECT IMPACT ON INDIA'S ECONOMIC GROWTH AND INFLATION. WORLD WIDE ECONOMIC SLOWDOWN AND INFLATION HAS DEPRESSED DEMAND FOR INDIAN EXPORTS E.G. JUTE AND INCREASED IMPORT COSTS. ALTHOUGH GOI PLANS CALL FOR INCREASING COAL AND PETROLEUM PRODUCTION, WE ANTICIPATE INDIAN WILL BE FACED WITH A SIZABLE OIL IMPORT BILL FOR SOME TIME TO COME. END SUMMARY.

1. BALANCE OF PAYMENTS: INDIA'S BALANCE OF PAYMENTS POSITION HAS BEEN SEVERELY AFFECTED BY THE FOURFOLD RISE IN POL PRICES SINCE THE END OF 1973. INDIA'S IMPORT BILL INCREASED FROM \$3.7 BILLION IN IFY 1973-74 TO \$5.6 BILLION IN IFY 1974-75. OF THIS INCREASE (\$1.9 BILLION), APPROXIMATELY 39 PERCENT WAS DUE TO THE HIGHER COSTS OF PETROLEUM IMPORTS. WHILE INDIA RECORDED A TRADE SURPLUS OF \$130 MILLION IN IFY 1972-73, PRIOR TO ANY MAJOR HIKE IN OIL PRICES, SUBSEQUENT YEARS HAVE RESULTED IN AN INCREASING ANNUAL TRADE DEFICIT AMOUNTING TO \$540 MILLION IN IFY 1973-74 AND \$1.45 BILLION IN IFY 1974-75. IT IS INTERESTING TO NOTE THAT THE TRADE DEFICIT OF \$1.45 BILLION JUST ABOUT EQUALLED THAT YEAR'S OIL IMPORT BILL. AN EVEN LARGER TRADE DEFICIT OF APPROXIMATELY \$1.8 BILLION IS EXPECTED IN IFY 1975-76. (NEW DELHI 16933, DECEMBER 19, 1975 PRESENTS RECENT BALANCE OF PAYMENTS STATISTICS ON A CALENDAR YEAR BASIS.)

2. INDIAN IMPORTS OF POL HAVE DECREASED IN QUANTITY TERMS SINCE 1973, WHILE THEIR VALUE HAS RISEN MARKEDLY, AS FOLLOWS:

	QUANTITY	VALUE
	(MILLION METRIC TONS)	(\$ MILLION)

CY 1972	15.57	268
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CY 1973	17.44	460
CY 1974	16.92	1,450
CY 1975 (PRELIMINARY)	16.50	1,550

(NOTE: EXCHANGE RATE IS RS.7.50 EQUAL US \$1.00 FOR CY 1972, 1973; RS.8.00 FOR CY 1974; AND RS.8.5 FOR CY 1975)

3. THE TRADE DEFICIT HAS BEEN LARGELY FINANCED THROUGH AN INCREASED INFLOW OF EXTERNAL ASSISTANCE, INCLUDING DEFERRED PAYMENTS ARRANGEMENTS FOR CRUDE OIL IMPORTS FROM OPEC COUNTRIES AND BORROWINGS FROM THE IMF UNDER THE COMPENSATORY

FINANCING FACILITY, THE OIL FACILITY, AND THE FIRST CREDIT TRANCHE. BECAUSE OF THESE BORROWINGS AND LARGE, UNEXPECTED INFLOWS INTO THE INVISIBLES ACCOUNT, INDIA'S INTERNATIONAL RESERVES HAVE INCREASED BY MORE THAN \$100 MILLION IN THE PAST YEAR TO APPROXIMATELY \$1.5 BILLION AT PRESENT. THE ENERGY CRISIS HAS FORCES THE GOI TO LOOK TO MIDDLE EAST COUNTRIES FOR CRUDE SUPPLIES, FINANCIAL ASSISTANCE AND MARKETS FOR INDIAN EXPORTS (SUCH AS LIGHT MANUFACTURING GOODS). IN IFY 1974-75 IRAN BACAME A MAJOR CUSTOMER OF INDIAN PRODUCTS, IMPORTING GOODS VALUED AT \$591 MILLION.

4. INSPITE OF INDIA'S CURRENT INTERNATIONAL RESERVE POSITION, INCREASED EXTERNAL ASSISTANCE AND FUTURE FINANCING OF DEVELOPMENT PROJECTS (E.G.OFFSHORE OIL EXPLORATION) WILL STILL BE NEEDED. THIS WILL RESULT IN INCREASING EXTERNAL DEBT SERVICE PAYMENTS IN THE COMING YEARS. IN THE MEANTIME THE GOI GOAL OF INCREASING SULF-RELIANCE (IN TERMS OF DIMINISHING FLOWS OF EXTERNAL ASSISTANCE) HAS RECEIVED A MAJOR SETBACK.

5. DOMESTIC ECONOMIC GROWTH. THE SLUGGISH RATE OF GROWTH IN INDIA'S GDP (3.1 PERCENT IN IFY 1973-74 AND AROUND 2 PERCENT LAST FISCAL YEAR) HAS BEEN PRIMARILY DUE TO UNFAVORABLE MONSOONS AFFECTING THE AGRICLUTURAL SECTOR. HOWEVER, HIGHER OIL PRICES HAVE HAD SOME NEGATIVE EFFECT ON INDUSTRIAL PRODUCTION, PARTLY BECAUSE OF INCREASED MANUFACTURING COSTS. (INDUSTRIAL OUTPUT INCREASED BY ONLY 3 PERCENT IN IFY 1974-75 BUT IS EXPECTECD TO BE SOMEWHAT HIGHER THIS FISCAL YEAR.) THE INDUSTRIAL SECTOR MOST AFFECTED HAS BEEN THE MANUFACTURING OF VEHICLES, WHICH ACCOUNTS, HOWEVER, FOR LESS THAN 8 PERCENT OF TOTAL INDUS- LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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TRIAL PRODUCTION. THE GOI HAS SUBSTANTIALLY RAISED EXCISE TAXES ON GASOLINE WHICH HAS CURBED THE DEMAND FOR MOTOR VEHICLES.

6. PRICES. HIGHER OIL PRICES HAVE HAD A RELATIVELY MINOR IMPACT ON INCREASES IN WHOLESALE PRICES (23.4 PERCENT IN IFY 1974-75, COMPARED TO THE PREVIOUS FISCAL YEAR, AND 22.8 PERCENT IN IFY 1973-74). PRICES OF FUEL, POWER, LIGHT, AND LUBRICANTS HAVE A WEIGHT OF ONLY 6 PERCENT IN THE OFFICIAL WHOLESALE PRICE INDEX, WHICH IS THE STANDARD MEASUREMENT OF INFLATION IN INDIA. PRICES OF THESE ITEMS ROSE BY 46.8 PERCENT INIFY 1974-75. AND 19 PERCENT IN IFY 1973-74. OTHER FACTORS (SUCH AS AVAILABILITY OF FOOD GRAINS) HAVE MORE IMPACT ON PRICES IN INDIA. RE- STRICTIVE MONETARY POLICIES PLUS A GOOD MONSOON LAST YEAR HAVE BEEN MAJOR REASONS WHY WHOLESALE PRICES, AS OF DECEMBER 20, 1975, WERE 6.6 PERCENT LOWER THAN TWELVE MONTHS BEFORE. IN THE SAME PERIOD WHOLESALE PRICES OF FUEL,

POWER, LIGHT AND LUBRICANTS WERE UP BY ABOUT 15 PER-
CENT PRIMARILY BECAUSE OF THE OCTOBER 1975 INCREASE IN
OIL PRICES.

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INFO OCT-01 AF-06 ARA-06 EUR-12 NEA-10 ISO-00 SP-02 AID-05

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03

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INR-07 INT-05 NSAE-00 PM-04 USIA-06 SAM-01 OES-03

PA-01 PRS-01 /115 W

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R 161115Z JAN 76

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 3436

INFO AMCONSUL BOMBAY

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8. PETROLEUM CONSUMPTION. IN AN ATTEMPT TO REDUCE ITS PRESENT

TWO-THIRDS DEPENDENCE ON OIL IMPORTS, THE GOI HAS TAKEN STEPS TO LIMIT PETROLEUM CONSUMPTION, WHICH AMOUNTED TO APPROXIMATELY 22.5 MILLION MT IN 1975. CONSUMPTION IS ESTIMATED TO HAVE INCREASED BY ONLY 2.8 PERCENT IN 1975, COMP-
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ARED TO 1974 (NEW DELHI A-4, JANUARY 7, 1976), AND ACTUALLY DECREASED BY 3.3 PERCENT IN 1974 IN COMPARISON WITH THE PREVIOUS YEAR. THE GENERAL VIEW AMONG GOVERNMENT AND AND BUSINESS LEADERS IS THAT INDUS-
TRUAL AND OTHER USERS SHOULD MAKE EVERY EFFORT TO CONSERVE FUEL. THE GOI IS ALSO STRESSING THE USE IN RURAL AREAS OF SMALL-SCALE GOBAR GAS PLANTS.

9. PLANS AND PROJECTS. THE ENERGY CRISIS HAS HAD THE EFFECT OF POSTPONING THE PUBLICATION OF THE FIFTH FIVE YEAR PLAN (1974-75 TO 1978-79), AND THE FINAL REVISED PLAN DOCUMENT HAS NOT YET BEEN ISSUED. NEVERTHELESS, AS FAR AS WE CAN DISCERN, HIGHER OIL PRICES HAVE CAUSED NO MAJOR PROJECTS TO BE SHELVED. THE GOI HAS FOCUSSED ON DEVELOPING INDIGENOUS ENERGY RESOURCES AND SUBSTITUTES FOR HIGHER VALUE IMPORTS. THIS HAS INCLUDED THE INTENSIFICATION OF OFFSHORE AND ONSHORE OIL EXPLORATION EFFORTS AND THE INCREASE OF COAL PRODUCTION FROM 81 MILLION MT IN IFY 1973-74 TO AN ANTICIPATED 98 MT IN IFY 1975-76. POWER PRODUCTION HAS ALSO BEEN INCREASED TO WHERE IT ALMOST MEETS DEMAND. (FOR A SUMMARY OF INDIAN ENERGY R & D PRIORITIES, SEE NEW DELHI 0684, JANUARY 14, 1976).

10. FUTURE IMPACT: THE GOI IS EXPECTED TO CONTINUE TO LIMIT THE CONSUMPTION OF PETROLEUM PRODUCTS. AT THE SAME TIME THE GOI IS GIVING PRIORITY TO DEVELOPING INDIGENOUS ENERGY RESOURCES. THIS CALLS FOR HIGHER COAL AND PETROLEUM PRODUCTION IN EACH SUCCEEDING YEAR AS WELL AS A GREATER KW OUTPUT FROM NEW AND LARGER PLANTS. THE OUTLOOK FOR INCREASING PETROLEUM PRODUCTION IS PRIMISING IN LIGHT OF THE OFFSHORE BOMBAY HIGH DEVELOPMENTS. GOI HOPES TO REALIZE 500,000 METRIC TONS OF CRUDE FROM BOMBAY HIGH ALONE IN 1976, GRADUALLY INCREASING THE PRODUCTION OF THIS FIELD TO AN ESTIMATED 8-10 MILLION MT BY 1980. WHILE TOTAL PRODUCTION (ONSHORE AND OFFSHORE) MIGHT BE IN EXCESS OF 15 MILLION MT BY THIS TIME, WE ANTICIPATE THE GOI WILL CONTINUE TO BE DEPENDENT ON IMPORTS TO MEET INTERNAL DEMAND FOR PETROLEUM AND PETROLEUM PRODUCTS FOR SOME YEARS TO COME.

11. PERCEPTION OF IMPACT. EXCEPT FOR PAYING HIGHER PRICES FOR KEROSENE, THE AVERAGE INDIAN HAS NOT BEEN AFFECTED BY THE
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ENERGY CRISIS AND PROBABLY HAS NO CONCEPT OF ITS GLOBAL IMPLICATIONS. ONLY THE INDIAN ELITES IN GOVERNMENT AND BUSINESS HAVE SOME UNDERSTANDING THAT THE RECENT INFLATION AND RECESSION IN THE DEVELOPED COUNTRIES HAVE BEEN PARTLY CAUSED BY THE ENERGY CRISIS AND AFFECTS ADVERSELY THE EXPORTS AND IMPORTS OF LDCS. IN THE CASE OF INDIA, EXPORTS HAVE INCREASED SUBSTANTIALLY IN THE PAST TWO YEARS, PARTLY BECAUSE OF FAVORABLE INTERNATIONAL PRICE DEVELOPMENTS (E.G. SUGAR) AND ALSO BECAUSE OF THE GROWING DIVERSIFICATION OF INDIAN EXPORT PRODUCTS. NEVERTHELESS, THE RECENT RECESSION HAS AFFECTED ADVERSELY SOME OF THE EXPORTS, SUCH AS JUTE MANUFACTURES.

12. GOI LEADERS ARE PRIVATELY BITTER ABOUT HOW HIGHER OIL PRICES HAVE HURT THE INDIAN ECONOMY, WHICH NOW HAS ONE OF THE LARGEST OIL IMPORT BILLS AMONG LDCS. IN PRIVATE CONVERSATIONS THEY ARE ALSO CRITICAL ABOUT THE RELATIVELY LITTLE FINANCIAL SUPPORT INDIA HAS RECEIVED FROM OPEC COUNTRIES IN COMPARISON TO PAKISTAN AND OTHER ISLAMIC NATIONS. NEVERTHELESS, GOI SPOKESMEN HAVE PUBLICLY SUPPORTED OPEC'S RIGHT TO INCREASE OIL PRICES. THEY CONSIDER THAT THEY HAVE NO OTHER ALTERNATIVE.

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Message Attributes

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